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DISCUSSION PAPER NO. 32

CROWN CORPORATIONS:

**THE AMENDED FINANCIAL ADMINISTRATION ACT
AND THE OFFICE OF THE AUDITOR GENERAL**

by Michael Ryan and Henno Moenting

JULY 1984

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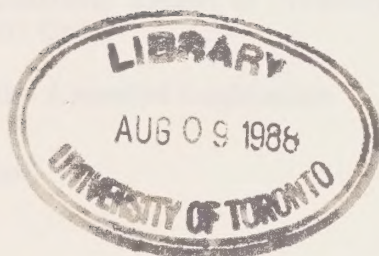


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Executive Summary


Parliament passed an Act to amend the Financial Administration Act in respect to Crown corporations and to amend other Acts in consequence thereof, on 28 June 1984. This is the most comprehensive revision of the Crown corporation accountability regime in over 30 years.

Some of the most fundamental changes relate to the role of auditors and, especially, the role of the Auditor General. Indeed, the Office faces its most significant challenge since the introduction of its new Act in 1977. The purpose of this paper is to describe and assess that challenge in more detail and to identify approaches the Office might consider in responding to the challenge.

The Auditor General has a dual role. As Parliament's auditor, he will want to monitor the introduction of the amended legislation so that he may eventually report to Parliament on the adequacy of the Crown corporation accountability regime. As statutory and appointed auditor of a number of corporations, he must introduce new annual audit processes such as the audit of quantitative information as well as a special examination of corporate systems and management practices directed to the achievement of economy, efficiency and effectiveness. The Auditor General must also offer consultation to other auditors and examiners and audit the accuracy of Treasury Board quarterly reports on the tabling of Crown corporation annual reports, summaries of plans and summaries of budgets in Parliament.

It is projected that the amended legislation will entail significant additional resource requirements for this Office when fully implemented. By 1989, the Office may audit and/or examine between 40 and 50 Crown corporations with assets of nearly \$30 billion.

This paper poses numerous questions for interpretation and discusses the potential impacts of the legislation on the roles and responsibilities of the Office. Key among these is external communication and liaison with others who share the responsibility of introducing the legislation.



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Introduction

On 28 June 1984, Parliament passed Bill C-24, "An Act to amend the Financial Administration Act in respect to Crown corporations and to amend other Acts in consequence thereof." This Act replaces Part VIII, the Crown corporations section, of the Financial Administration Act. The new provisions provide a new control, direction and accountability regime for wholly-owned federal Crown corporations, including parent corporations and their wholly owned subsidiaries.

Although at the time of writing this paper a proclamation (effective) date has not yet been set, the passage of this legislation introduces the most comprehensive revision to the Crown corporation accountability regime in over 30 years. The legislation modifies each component of the accountability framework for Crown corporations including authorization, financing, direction, control, reporting and auditing.

Some of the most fundamental changes relate to the role of Crown corporation auditors and, especially, the Auditor General. Indeed, the Office faces the most significant challenge since the introduction of its new Act in 1977.

The purpose of this paper is to describe the impact of the amended legislation on the Office of the Auditor General. It will describe the nature of the audit regime including its new concepts, quantitative information audit and special examination. Questions of relevance to legislative interpretation are posed and functions facilitating implementation are described. A description of the Act follows.

The Amended Financial Administration Act

The amended Financial Administration Act provides an appropriate and comprehensive accountability framework for Crown corporations, with flexibility characteristic of the private sector and the oversight appropriate to the public sector. Among other things, it provides for gradations in flexibility and oversight by means of schedules, a defined role for Parliament and specific roles for boards of directors and auditors. It introduces value-for-money audit concepts into Crown corporation legislation. The amended legislation treats only wholly-owned government corporations and does not cover partially-owned subsidiaries or mixed enterprise corporations.¹ Many players will be called upon to introduce the legislation.

The Players

The legislation assigns responsibility to many players who share the opportunity to interpret and implement it. Besides the Office, these include:

- officials in the central agencies, who will develop and disseminate regulations and guidelines and manage many aspects of the interface of the corporations with the government;
- management in the Crown corporations, who will implement the legislation in respect to their corporations;

¹ The legislation excludes seven wholly-owned corporations from its coverage. They are: four cultural corporations (the Canada Council, the Canadian Broadcasting Corporation, the Canadian Film Development Corporation and the National Arts Centre Corporation) and three other corporations (the Bank of Canada, the Canadian Wheat Board, and the International Development Research Centre).

- staff in departments, who will assist ministers to carry out their responsibilities in respect to Crown corporations;
- auditors who will provide audit and special examination services;
- Members of Parliament, the media and the public, who will monitor implementation of the legislation; and
- Boards of Directors who have newly defined responsibilities - possibly exceeding those of their private sector counterparts.

Introduction of the amended legislation provides a major challenge for all players, including members of the audit community.

Challenge to Auditors

The amended legislation charges the external audit community with the responsibility of conducting annual audits with new parameters, as well as a new form of broad-based audit, the special examination. The external audit community will have the opportunity to develop a consensus on the interpretation of the amended legislation, including such new audit concepts as policy restrictions and reasonable assurance. For example, section 147 states that the auditor or examiner of a Crown corporation may not express any opinion on the merits of the objects or purposes of the corporation, its objectives, or business or policy decisions of the corporation or the government. Also, section 143 of the amended legislation requires the special examiner to provide an opinion on whether there is reasonable assurance that there are no significant deficiencies in the systems and practices examined.

Members of the external audit community will review their relationships with each client corporation, its board of directors, its audit committee and its internal review bodies. Of no less significance is a harmonious and productive relationship among the various components of the external audit community as they establish plans and procedures to implement the Act.

External auditors and examiners rely on a chain of responsibility which can be traced back to the board of directors of each corporation. The board and management are charged with the responsibility of developing functional specifications for management systems and practices. These systems and practices are to provide reasonable assurance that assets are safeguarded, transactions comply with authorities and resources are managed with economy and efficiency while operations are carried out effectively. Inherent in these specifications are definitions of monitoring sub-systems and acceptable levels of risk. These specifications influence the scope of the mandatory broad scope internal audit and, in turn, the external annual audit and the special examination. Both the external audit and the examination must rely on internal audit.

Challenge to the Office of the Auditor General

The Office of the Auditor General has a duality of interest with respect to Crown corporations. As Parliament's auditor pursuant to the Auditor General Act, the Auditor General is interested in monitoring the implementation of the amended legislation. In essence, he should be in a position to assure

Parliament that an adequate accountability framework for Crown corporations is in place and is functioning as intended.

As auditor of a substantial number of Crown corporations pursuant to the Financial Administration Act, the Auditor General faces the significant task of introducing the new variations relating to the annual audit and conducting a number of special examinations.

The amended legislation makes several direct and indirect references to the Auditor General:

- Auditors appointed by means of other acts of Parliament shall remain; the Auditor General is named as the statutory auditor of 16 parent Crown corporations and 2 wholly-owned subsidiaries.
- On and after 1 January 1989, the Auditor General shall be appointed the auditor or joint auditor of each parent corporation listed in Schedule C-Part I. The Auditor General may also be appointed as auditor of other corporations.
- The normal expectation is that the auditor shall carry out the special examination; however, a possibility exists for appointment of another qualified auditor. Thus, the Auditor General will have responsibility for special examinations of each corporation listed in Schedule C-Part I unless another auditor/qualified auditor is appointed by the Governor in Council.
- An auditor or examiner may consult with the Auditor General at any time and must consult on any information that, in the opinion of the auditor or examiner, should be brought to the attention of Parliament.
- The Auditor General shall audit the accuracy of Treasury Board quarterly reports on tabling Crown corporation reports, planning summaries and budget summaries and report on his findings in his annual Report to Parliament.

These provisions will lead to a major change in the function and nature of the Office of the Auditor General.

A Definition of Success

In 1990, it is hoped that the Office will be in a position to consider using these words to report successful implementation of the amended legislation to Parliament:

The accountability of Crown corporations to Government and Parliament has improved as a result of the amended Financial Administration Act. The audit and special examination provisions of the Crown corporation legislation have been fully implemented and are consistently understood; as a result, auditors can provide assurances required by the legislation.

What agenda for action is necessary to allow the Office to make that kind of report to Parliament? The following section relates to the interpretation of the Act. Relevant sections of the Act are described and questions are posed. Answers to those questions will facilitate implementation of the Act.

Interpretation of the Legislation

The Annual Audit

Auditor appointment (s.141). The amended legislation specifies that on and after 1 January 1989, the Auditor General shall serve as sole or joint auditor of parent Crown corporations listed in Schedule C-Part I. In addition, the Auditor General is eligible to be appointed to corporations listed in Schedule C-Part II. The Act also recognizes the Auditor General as statutory auditor under existing legislation. Should a separate audit report be required for a wholly-owned subsidiary, the board of directors of the parent corporation shall appoint the auditor of the subsidiary. Tables 1 and 2 provide a possible distribution of audit appointments over time.

The Office can expect to continue serving as sole auditor of those 16 parent and 2 subsidiary corporations which it audits by statute. However, several questions arise in regard to other audit appointments:

- Will the Office serve as sole or joint auditor of the remaining 23 parent corporations to which it is or is to be appointed?
- Will the Office retain its statutory audit function for Teleglobe, a Schedule C -Part II corporation?
- Will the Office be named as auditor of any other Schedule C-Part II corporations?
- Will the Office continue to audit the five subsidiaries of Schedule C-Part I corporations it currently audits by appointment?
- Will the Office be appointed auditor of the five additional Schedule C-Part I subsidiaries currently audited by the private sector?
- Should the Office waive any appointments?

Whatever the number of audits, the Office faces a new form of annual audit.

Table 1
Role of the Auditor General: Schedule C - Part I

	<u>Parent</u>				<u>Wholly-owned Subsidiaries</u>			
	AG Statutory Auditor	AG Appointed Auditor	Private Sector Appointed	Total	AG Statutory Auditor	AG Appointed Auditor	Private Sector Appointed	Total
<u>Present</u>								
1984								
AN ¹	15	12	10	37	0	7	5	12
SE	0	0	0	0	0	0	0	
1985								
AN	15	12	10	37	0	7	5	12
SE	3	2	2	7	0	1	1	2
1986								
AN	15	12	10	37	0	7	5	12
SE	3	2	2	7	0	1	1	2
1987								
AN	15	12	10	37	0	7	5	12
SE	3	2	3	8	0	2	1	3
1988								
AN	15	12	10	37	0	7	5	12
SE	3	3	3	9	0	2	1	3
1989								
AN	15	22 ²	0	37	0	7	5	12
SE	3	3	-	6	-	2	1	3
1990 +								
AN	15	22	0	37	0	7	5	12
SE	3	5	0	8	0	1	1	2

¹ AN represents annual audit; SE represents special examination.

² It is assumed that the Office will be appointed as sole auditor to 10 parent corporations in 1989. Also, it is assumed that there are no newly created Crown corporations and that no existing ones are discontinued.

Table 2

Role of the Auditor General: Schedule C - Part II

	<u>Parent</u>				<u>Wholly-owned Subsidiaries</u>			
	AG Statutory Auditor	AG Appointed Auditor	Private Sector Appointed	Total	AG Statutory Auditor	AG Appointed Auditor	Private Sector Appointed	Total
<u>Present</u>								
1984								
AN ^{1,2}	1	.5	7.5	9	0	0	115	115
SE	0	0	0	0	0	0	0	0
1985								
AN	1	.5	7.5	9	0	0	115	115
SE	0	0	1	1	0	0	23	23
1986								
AN	1	.5	7.5	9	0	0	115	115
SE	1	0	1	2	0	0	23	23
1987								
AN	1	.5	7.5	9	0	0	115	115
SE	0	0	2	2	0	0	23	24
1988								
AN	1	.5	7.5	9	0	0	115	115
SE	0	0	2	2	0	0	23	23
1989								
AN	1	.5	7.5	9	0	0	115	115
SE	0	0	2	2	0	0	23	23

¹ AN represents annual audit; SE represents special examination.

² It is assumed that there are no newly created corporations and that no existing ones are discontinued.

Audit of financial statements (s.139). The amended legislation requires the traditional annual attest of the financial statements. The law now stipulates that the statements shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation or subsidiary. This change from the previous wording of the Act raises questions:

- Might preparation of statements by major business activity influence the level of audit materiality?
- Might there be a need to review the applicability of the CICA Handbook section relating to segmented information?
- How does dropping the requirement for assurance of "proper" books and records from legislation influence the audit?
- How does different forms of required opinion influence the audit?
- How would audit findings relevant to the Public Accounts opinion be reported?

However, the impact of this change in wording is likely to be minimal when compared to the challenge of introducing the audit of quantitative information.

Audit of quantitative information (s.139). The annual audit provisions of the Act introduce the concept of a quantitative information audit should such be required by Treasury Board. The Act specifies that the auditor's report should give an opinion on whether such information is accurate in all material respects and, where applicable, was prepared on a basis consistent with that of the preceding year. The audit of quantitative information raises several questions:

- What priority should the audit community place on development of methodology for this audit activity until Treasury Board requires corporations to report such information and, further, requires that such information be audited? Can methodology be addressed in the abstract?

- What type of information will Treasury Board require to be audited?
- How much information will Treasury Board require to be audited?
- What is the operational definition of accuracy in all material respects and consistent presentation?
- What methodology will be required to measure accuracy in all material respects and consistent presentation?
- What form will the quantitative information statement assume?
- When would an auditor provide two audit reports rather than a separate statement on quantitative information in the annual audit report, as allowed for in section 139?
- Will there be any requirement to audit quantitative information in the annual reports of subsidiaries?

While the audit of quantitative information is a new requirement, there are changed requirements for the audit of compliance.

Audit of compliance (s.139). The compliance provision of the amended legislation limits the scope of the compliance audit when compared to the previous provisions of the Financial Administration Act. Under the amended Act, the auditor is required to report on whether the transactions of the corporation and each subsidiary that have come under his notice in the course of his examination were in accordance with the amended Act, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation.

This charge to the auditor is narrower than the former Financial Administration Act, which required that the transactions of the corporation that

came under the auditor's notice were within the powers of the corporation under that Act and any other act of Parliament applicable to the corporation.

From another perspective, the amended legislation may require compliance consideration of a broader number of transactions than did the prior Financial Administration Act. The amended legislation apparently requires compliance considerations in reference to the quantitative information audit as well as the audit of the financial statements.

In addition, the amended legislation effectively requires a compliance audit against section 138 of the Financial Administration Act, which charges management with the need to maintain systems and practices that provide reasonable assurance that the assets are safeguarded and controlled and the financial, human and physical resources of the corporation and each subsidiary are managed economically and efficiently. It also requires an opinion on whether the operations of the corporation are carried out effectively. The question is whether this requires the annual audit to cover value-for-money considerations on a regular basis?

Those interpreting the amended Act must also address several other questions.

- What is the scope of the compliance audit?
- Does the term "charter" refer only to enabling legislation or does it include any other Act of Parliament applicable to the corporation?
- Does the term "directive" refer only to those directives given under section 99 of the amended legislation or does it include other forms of directives?

- If the directive under section 99 has yet to be tabled in the House of Commons, does the auditor still audit for compliance against that directive?
- What modifications to methodology will be required in order to audit against regulations and by-laws?
- Is compliance reported on in the financial audit report and/or in the quantitative information audit report in those cases where there are two auditor's reports?

The provision for "other matters" is the final component of the annual audit.

Audit of "other matters". The amended legislation provides for reporting on other matters. The number of transactions on which an auditor may find other matters may be broader than was the case with the former Financial Administration Act. It includes other matters found in the audit of quantitative information as well as the audit of the financial statements.

The Special Examination

Special examination appointment (s.144). The amended Financial Administration Act specifies that the auditor of a parent Crown corporation shall carry out the special examination. However, the Act provides that the Governor in Council may, after consultation with the board of directors, appoint an auditor who is qualified to carry out the examination in lieu of the auditor of the corporation. When a separate special examination is to be carried out on a wholly-owned subsidiary, the board of directors of the parent corporation shall appoint a qualified auditor to carry out that special examination.

The Office will serve as examiner of those parent Crown corporations to which it is the statutory or appointed auditor unless the Governor in Council appoints another qualified auditor. Thus, should no such qualified auditor be appointed, the Office would examine 39 parent corporations and 7 subsidiaries in 1989 based on corporations now in existence. A projected distribution of special examination responsibilities by year is given in Tables 1 and 2. Several questions arise:

- Will other qualified auditors be named as examiners of Schedule C-Part 1 corporations or Schedule C-Part II corporations which the Office now audits?
- Is it possible to have a joint special examination? Would this happen in cases of joint audit appointments?
- Should the Office seek to retain examiner status or appointment to other corporations?
- Will boards of directors of parent corporations audited/examined by the Office appoint the Office to be examiner of their subsidiaries?
- What qualifies a qualified auditor?

What is the special examination?

Overview (s.143). The amended legislation requires the examiner to conduct a survey of the "systems and practices" of the corporation to be examined and submit a plan for that examination, including a statement of criteria. This plan shall be submitted to the audit committee of the corporation or, in the absence of such a committee, to the board of directors.

The examiner's report shall provide the examiner's opinion on whether there is a reasonable assurance that there are no significant deficiencies in the

systems and practices designed to safeguard and control the assets of each corporation. It will also indicate whether systems and practices of the corporation were maintained in a manner that provides reasonable assurance that the human, financial and physical resources of the corporations were managed economically and efficiently and their operations were carried out effectively. The report will also include a statement on the extent to which the examiner relied on internal audit.

The special examination report shall be submitted to the board of directors of the corporation audited. If the auditor of a Schedule C-Part I corporation considers that the report contains information that should be brought to the attention of the Minister or Parliament, the legislation provides appropriate mechanisms. These mechanisms include required consultation with the Auditor General in the case of Parliamentary reporting. Interpretation of the special examination provisions of the legislation requires consideration of the following factors.

Planning.

- What constitutes a complete special examination?
- How would one conduct partial special examinations?
- What is the nature of a special examination survey?
- What response may the Audit Committee or board of directors make to the special examination plan? Is agreement required?
- At what point do the examiner and audit committee seek resolution of disagreement by higher authority?
- Might the audit committee of a subsidiary resolve the disagreement by having a new set of auditors named?

Execution.

- How does a special examination compare to a departmental comprehensive audit?
- How does the effectiveness measurement mandate under the amended Act differ from the effectiveness measurement and reporting mandate of the Office under the Auditor General Act?
- How will the organization of the special examination differ from the organization of a comprehensive audit?
- Will the special examination be organized by systems, programs, organizational units, transactions or by other means?
- Is there any restriction on the duration of a special examination?
- How will the workload required to plan, execute and report on a special examination compare to that required to conduct a comprehensive audit? Must one not only determine the absence of significant deficiencies as is the case in departmental audits but also give an opinion providing reasonable assurance that no significant deficiencies exist?
- Does the examiner give the board of directors a management letter as well as the opinion?
- How will the legislative requirement for comprehensive internal audits and the requirement that external auditors rely on internal audits influence the amount of work required in a special examination?
- Does the requirement to rely on internal audit imply an audit of internal audit or an assessment of its effectiveness?
- How will the practice of reporting to the board of directors influence the materiality levels in the special examination?

Reporting.

- What is the nature of a clean opinion providing reasonable assurance that no significant deficiencies exist?
- What is the nature of a statement indicating that deficiencies exist?
- What does a special examination report include besides the opinion statements and a reliance statement?
- Will the examiner report his opinion on systems as of a specific date and his opinion on practices for a specific period of time?

- How would the examiner report inability to rely on internal audit?
- How is the examination scope spelled out in the report?
- How detailed are the criteria in the report?
- Should a special examination report resemble a comprehensive audit report in that the auditor calls to the attention of Parliament cases in which money has been expended without due regard to economy or efficiency, and satisfactory procedures have not been established to measure and report on the effectiveness of programs?
- What sort of information in a special examination report should be brought to the attention of the Minister and Parliament?
- How would the examiner report a continuous special examination?
- How will restrictions on opinions on the merits of policy and business decisions influence reporting?
- How would special examination findings be reported if they were material to the audit of the Public Accounts?

Auditors conducting special examinations do have the right to consult with the Auditor General.

Consultation with the Auditor General

The amended legislation, section 145, provides that the auditor or examiner may consult with the Auditor General at any time on any matter related to his or her audit or special examination. Furthermore, the auditor and examiner of Schedule C-Part I corporations shall consult with the Auditor General with respect to any matter that, in the opinion of the auditor or examiner, should be brought to the attention of Parliament under designated provisions (emphasis added).

Several questions arise in relation to the consultation provisions of the legislation:

- What sort of issues may arise from the optional consultation provisions; and should the Office anticipate and prepare to address these?
- The mandatory consultation on other matters will come primarily from the annual audit of Schedule C-Part II corporations after 1989, as the Office will then serve as auditor or joint auditor of all Schedule C-Part I corporations. The same may apply to special examinations should the Office serve as the examiner for the corporations which it audits. Thus, the mandatory consultation provisions of the legislation may require minimal resources.
- What does the Office do with reports from examiners going to Parliament?

Another new element in the legislation is the audit of Treasury Board quarterly reports.

Audit of Quarterly Report of Treasury Board

The amended legislation requires an audit of the Treasury Board quarterly reports -- reports on the tabling of Crown corporation annual reports and summaries of plans and budgets in Parliament (s.153.1). The Auditor General is required to attest to the accuracy of the information contained in each quarterly report and to include the results of his audit in his annual Report to Parliament. The following questions arise in respect to this new legislative task.

- What methodology is required to attest to the accuracy of the quarterly report?
- When will the first quarterly report be tabled and in which annual Report will the Office be required to submit its first audit report?

- Were the Treasury Board report not tabled, would the Office comment?
- What level of resourcing will be required to carry out this new audit responsibility?

The Auditor General will not be required to include the cost of this audit activity in his annual Report to Parliament. This is required only for the annual audits and special examinations he conducts.

Reporting Audit Costs

The amended legislation requires the Auditor General to report the costs incurred by his Office in preparing any report under the annual audit and special examination provisions of the legislation (s. 149). The following questions arise:

- What impact will cost reporting have on internal costing and cost distribution?
- If the Office chooses to provide separate reports on the financial attest audit and the quantitative information audit, must the Office prepare and report separate costings?
- Does the legislation imply separate costing for the annual audits and the special examination?
- If the special examination is spread over five years, should the Office report on the cost of work conducted each year or only at the end of the examination?

Implementing the amended legislation will affect most units within the Office.

Implementation of the Amended Legislation

Interpretation and implementation of the amended legislation will produce major challenges in the Office and the audit community. Those performing various roles in the Office will share the challenge.

Identification of tasks and distribution of responsibilities for the implementation of Bill C-24 are still evolving. Responsibility for studying the impact and planning for the smooth implementation of the Bill has been given to the Crown Corporations Group of the Office. They are to pay particular attention to interpretation and policy advice, including methodology development; operational considerations such as financial and staff implications; monitoring implementation and reporting aspects; and internal and external co-ordination and communication.

A preliminary sketch of the tasks ahead follows: areas addressed include auditing, communications, standards, methodology, research, planning, resourcing, financing and administration. Other than noted above, no attempt has been made to correlate functional tasks with organizational entities within the Office.

Auditing. Tables 1 and 2 provide a profile of future audit responsibilities of the Office, and projections have been made in respect to direct resource requirements. From any perspective one chooses, the Office faces a major increase in its auditing and examination responsibilities. It faces the largest increase in its responsibilities since the introduction of comprehensive auditing of

departments during the last decade. The need to audit to different legislative requirements in respect of the annual audit and to meet a new requirement, the special examination, adds complexity and novelty to the challenge faced by operational components of the Office.

Communication. The Office is one of the many players involved in interpreting and implementing the legislation. Successful interpretation and implementation will depend on the co-operation of all these players.

External communication activities could serve to develop a consensus on roles in general and the appropriate role for the Office in particular. For successful implementation of the legislation, external communication could serve to develop a consensus on:

- player involvement;
- strategy;
- evaluation;
- guidance; and
- safeguards.

Prompt and effective communication will reduce the risk of misunderstandings and rumours with resulting fears, especially on the part of Crown corporations. A Crown corporations communications strategy for the Office, including a definition of objectives and the appropriate mix of spokespersons, audiences, messages, timing and media, would facilitate introduction of the legislation.¹

¹ (M.G. Ryan, S. Baldwin, & W. Douglas, Communication for Organizational Change. Optimum, 11, 4, 1980, p.47.)

Standards. The Office has gone on record to the effect that the Canadian Institute of Chartered Accountants should serve as the key body for setting national standards for comprehensive auditing. However, until such standards are developed and disseminated, the Office will undoubtedly play a significant role in establishing practice which has implicit if not explicit underlying standards. Moreover, the Office might be called on to modify any generic standards to suit the specific requirements of Crown corporation auditing under the amended Financial Administration Act. Standards will be required for the audit of quantitative information, special examinations and the audit of quarterly reports.

Methodology. The development of operational definitions and interpretations of the amended legislation and the adaptation or development of audit instruments to meet the requirements of audit, examination and consultation will be a matter of urgent concern. Existing methodology may be used to conduct much of the annual attest audit of the financial statements. Modified versions of existing methodology may be used to conduct annual compliance audits and new methodology will be required to conduct the audits of quantitative information and special examinations. The methodology would include a definition of appropriate audit and examination outputs, including opinions and supporting reports.

Research. Defining and interpreting the provisions of the amended Act will require research efforts. Initial efforts might focus on the mandate of the Office in respect to Crown corporations compared to its mandate under the

former provisions of the prior Financial Administration Act and under the Auditor General Act. Research might also determine whether precedent exists in the literature, prior work of the Office or of other practitioners in Canada and abroad which might provide guidance in implementing these new dimensions of audit responsibility. Researchers would probably want to pay specific attention to special examinations and the quantitative information audit. They would also want to build up their data base on major business activities of Crown corporations and on internal audit/evaluation activities of corporations.

Planning. The Office will face the task of planning the implementation of the legislation. Planners may analyze the situation in light of the mandate of the Office, assess the external and internal environment and develop projections into the future. In light of the above, the planners may choose to articulate assumptions and formulate objectives and goals related to successful implementation of the amended legislation. They may then develop an action plan, suggest modification of Office policy and practice and develop strategies, priorities, and budgets for required resources.

Human resources. Preliminary estimates suggest that, as a result of the amended legislation, the Office may require substantial additional direct audit hours to carry out its responsibilities in 1989. This requirement will be for additional attest audit work as well as for new special examination work. In addition, there will be immediate requirements to conduct front-end work in interpreting the Act, implementing changes to the annual audit, introducing special examinations, audits of quarterly reports and a consultation service to

auditors. As well, other resources (methodology and administration) will be required to support the operational activity.

Skills required to carry out the specifications of the amended legislation include the following:

- skills in financial attest audit activity usually associated with accounting and financial audit professionals;
- skills in legislative compliance audit activity usually possessed by legislative auditors;
- skills in the audit of quantitative information usually possessed by management and social scientists with comprehensive audit experience. These and financial audit professionals would also be qualified to attest to the accuracy of Treasury Board's quarterly reports;
- skills in the planning, execution and reporting of systems based value for money audit normally possessed by the practitioners of public and private sector comprehensive auditing. Key resources would be those who have been involved in comprehensive audits of Crown corporations and other organizations whose functions resemble the functions carried out by Crown corporations. People which have worked in Crown corporations or who have served in department corporation liaison capacities would be desirable; and
- skills in interpersonal communication with clients and ability to work effectively with joint auditors/examiners from the private sector.

These skills are available from various sources -- the Office, the accounting and management consulting firms and employees of the federal government and Crown corporations. Human resources may be acquired by means of reallocation within the Office, hiring from government, Crown corporations and the private sector and through processes such as Executive Interchange. Wherever they come from, those carrying out the audits and examinations will require training.

Training. Training will be required to implement the legislation, orient practitioners to modified or new audit and examination requirements and advance the theory and practice necessary to carry out the Office responsibilities in respect to the amended legislation. A course might be developed introducing Office personnel to the nature, structure and processes of Crown corporations. Courses can easily be envisioned on the annual audit and the special examination. Seminars on reliance and reporting might also prove useful.

Finance and administration. The addition of direct audit hours will require incremental administrative and financial support. The resources necessary in this respect will depend on the appointment practices of government, the acceptance of audit appointments by the Auditor General, Office management decisions on the nature of resources to be acquired, the timing of resource acquisition and the desired extent of support.

Additional person-years will increase financial requirements though the appropriations process as well as requirements for physical space, furniture and office technology.

The Office faces a period of challenge and growth. It faces the opportunity to effectively manage the change introduced by the amended legislation and, thereby, contribute to the increased accountability of Crown corporations to Parliament.

Appendix 1

**Scheduled Parent and Subsidiary Crown Corporations for which the
Auditor General is Statutory Auditor**

Schedule C-Part I Corporations

1. Atlantic Pilotage Authority
2. Canada Deposit Insurance Corporation
3. Canadian Commercial Corporation
4. Canadian Livestock Feed Board
5. Canagrex
6. Export Development Corporation
7. Farm Credit Corporation
8. Great Lakes Pilotage Authority, Ltd.
9. Laurentian Pilotage Authority
10. National Capital Commission
11. Northern Canada Power Commission
12. Pacific Pilotage Authority
13. Royal Canadian Mint
14. The St. Lawrence Seaway Authority
 - The Seaway International Bridge Corporation, Ltd.
 - The Jacques Cartier and Champlain Bridges Incorporated
15. Standards Council of Canada

Schedule C-Part II Corporations

16. Teleglobe Canada

Appendix 2

Scheduled Parent Crown Corporations for which the Auditor General is Currently Appointed Auditor

Schedule C-Part I

1. Atomic Energy of Canada Limited
2. Canada Lands Company Limited
 - Canada Lands Company (Mirabel) Ltd.
 - Canada Lands Company (Le Vieux-Port de Montreal) Ltd.
 - Canada Lands Company (Vieux-Port de Québec) Inc.
 - Canada Museums Construction Corporation Inc.
 - Canada Harbour Place Corporation
3. Canada Post Corporation (Joint)
4. Canadian Arsenals Limited
5. Canadian Dairy Commission
6. Canadian National (West Indies) Steamships, Ltd.
7. Canadian Patents and Development Limited
8. Canadian Saltfish Corporation
9. Defence Construction (1951) Limited
10. Freshwater Fish Marketing Corporation
11. Loto Canada Inc.
12. Uranium Canada, Limited

Schedule C-Part II

1. Canada Development Investment Corporation

Appendix 3

**Schedule C-Part I Parent Crown Corporations to which the
Auditor General will be Appointed by 1 January 1989**

1. Canada Mortgage and Housing Corporation
2. Canadian Sports Pool Corporation
3. Cape Breton Development Corporation
4. Federal Business Development Bank
5. Harbourfront Corporation
6. Mingan Associates Ltd.
7. Pêcheries Canada Inc.
8. St. Anthony Fisheries Limited
9. Societa a responsibilita limitata Immobiliare San Sebastiano
10. Via Rail Canada Inc.

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